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THE SMALL AND MEDIUM SCALE FISHERIES CREDIT GUARANTEE AND  
INSURANCE SYSTEMS IN JAPAN

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*Abstract*

After the Second World War, the task of rehabilitation and development of the Japanese fishing industry was severely hampered by the low level of financial creditability of a sector so inherently risky and dependent upon fluctuations in natural conditions. To ameliorate this situation, Credit Guarantee and Insurance Systems for small and medium scale fisheries were established in 1952. The paper describes in detail the mechanisms of the credit of guarantee system, conditions for membership, operational methods (in particular the procedures activated in cases of subrogation - inability of fishermen to repay their debts), associated credit insurance systems, etc. The paper discusses the impact of the oil crises, of the restrictions upon access to traditional distant water fishing grounds and of price and market trends upon the development of the credit guarantee and insurance systems. High levels of subrogation in the late 1970s and early 1980s imposed heavy burdens on the systems which had to be financially supported by the government. Stricter pre-guarantee award research and evaluation and improved mid-term management are now proceeded to promote better balances in the credit and insurance accounts.

## INTRODUCTION

Fishery is an economic activity which exploits aquatic resources. Catches and subsequent fishermen's incomes often heavily fluctuate depending on natural conditions. In addition to such characteristics of fishing as an industry, small and medium-scale fishermen have low financial credibility because of their limited operational scale. In order to develop small and medium-scale fisheries, credit supplementation is essential for such fishermen to raise the funds necessary for developing fishery infrastructures including fishing vessels and gears.

This paper describes the Japanese Small and Medium-Scale Fisheries Credit Guarantee and Insurance Systems which supplement financial credibility of small and medium-scale fishermen. These systems were established by the laws of 1952. The objective of these systems is to promote small and medium-scale fisheries in Japan by facilitating accommodation of loans to fishermen.

## JAPANESE FISHERIES SITUATION WHEN THE SYSTEMS WERE ESTABLISHED

After the Second World War, the rehabilitation of fisheries to ensure supplies of animal protein was one of the most important Japanese national policies designed to mitigate the tight food supply to the nation. At the same time, conducting fishery business was extremely difficult because of the shortage of vessels and gears due to the War. To reconstruct and develop the fishing industry, it was urgently necessary to renew fishing equipment including fishing vessels, and to obtain adequate fuel oil and fishing materials such as baits, hooks and ropes. However, at a time of post-war financial difficulties, small and medium-scale fishermen who had poor loan security and financial credibility faced great problems in achieving the loans required to meet their financial needs. Moreover, the financial institutions were suffering from shortage of deposits which act as a source of lending money.

To cope with the above situation, local fisheries cooperative associations (FCAs) were allowed to conduct credit business. Prefectural Credit Federations of FCAs were also established. Coupled with the Norinchukin Bank (Central Cooperative Bank for Agriculture, Forestry and Fisheries), three-tier financial institutions were established exclusively for fisheries. Even after the establishment of the financial institutions for fisheries, money supply to small and medium-scale fishermen with poor loan security was not facilitated because the financial institutions were required reliable return of the debt when making loans to fishermen.

## ESTABLISHMENT OF THE SYSTEMS

In order to improve the above situation and assist in the developments small and medium-scale fisheries, it was essential to provide fishermen with credit supplementation and to adequate money supply to fishermen. After some primitive attempts at credit guarantee systems by fishermen themselves, the "Small and Medium-Scale Fisheries Credit Guarantee and Insurance Systems", which provide fishermen with official credit guarantees, were established in 1952 by the enactment of the "Small and Medium-Scale Fisheries Credit Guarantee Law" and the "Small and Medium-Scale Fisheries Credit Insurance Special Accounts Law". The purpose of the former law (amended in 1995) was as follows:

*"This law aims at promoting small and medium-scale fisheries by establishing a credit guarantee system in which the Fisheries Credit Guarantee Fund Associations will provide financial institutions with credit guarantee of the financial liabilities of fishermen, and a credit insurance system in which the Japan Agriculture, Forestry and Fisheries Credit Fund insures the said credit guarantees in order to facilitate the accommodation of the loans necessary for the fishing operations of small and medium-scale fishermen."*

At the inception of the Systems, the Japanese Government insured the credit guarantees extended by the Fisheries Credit Guarantee Fund Associations (FCGFAs). This government insurance greatly strengthened the credibility of FCGFAs.

These Systems provided fishermen who had individually low financial credibility with the function of the credit supplementation, and facilitated their fund raising. The establishment of FCGFAs in each prefecture formed the organizational basis of the Systems, enabled the fishermen to utilize their own credit guarantee organizations, and facilitated the accommodation of loans to fishermen (see Figure 1).

## **THE IMPACT OF CHANGES IN THE JAPANESE FISHERY SITUATION UPON THE SYSTEMS AFTERWARDS**

### **External Development of the Fishery**

During the high-growth period of the Japanese economy between the late 1950s and early 1970s, many fishermen acted positively and introduced more powerful vessels, large-sized vessels and machinized fishing equipment. They managed their fishing operations with emphasis on increase in catches and enhancement of efficiency. Such a management style was made possible partly by a series of technical developments, and most particularly by favorable economic and social conditions including cheap fuel oil, easy access to resources in distant waters and continued increases in fish prices. From the financial aspects, the Small and Medium-Scale Fisheries Credit Guarantee and Insurance Systems accelerated the above movement by facilitating accommodation of loans to small and medium-scale fishermen. As a result, the Japanese fisheries maintained such external developments throughout the early 1970s; from the coast to off-shore, from off-shore to distant waters.

### **Establishment of the Japan Central Fisheries Credit Fund**

Nevertheless, the operations of some fishermen worsened due to poor catches and/or strengthening of international fishing restrictions, and the number of subrogations required increased. The annual amount of subrogated payment, which had been at a level of 100 to 200 million yen before 1967, increased to a level of 600 to 900 million yen after 1968. In response to the deterioration of the financial situation of many fishermen, the law for these Systems was amended in 1974 to facilitate the utilization of these Systems. By such amendments, the number of fishermen who might benefit and the type of loans applicable to the credit guarantee were increased. FCGFAs' capability of credit guarantee was enhanced, and the management basis of the FCGFAs was strengthened. The Japan Central Fisheries Credit Fund (JCFCF) was also established in 1974 by this amendment to extend loan insurance to the Norinchukin Bank.

### **Oil Crises and the Era of 200-mile zone**

The low fuel price, which supported the external expansion of the Japanese fisheries, soared in response to the two oil crises of 1973 and 1978. The plateau in fuel prices continued to 1985, and the operations of the Japanese fisheries were accordingly affected adversely since they consume large quantities of low price fuel for operations. Prices of fisheries materials also rose sharply as a result of these oil crises. The financial situation of the fishermen considerably deteriorated, resulting in increases of demand for loans to maintain fishery operations. Demand for credit guarantee also increased greatly during the same period.

By that time, the credit insurance was provided by the Japanese Government. The annual maximum value of such insurance was decided at the beginning of each fiscal year by the national budget (which required the Diet approval). The maximum value was not able to change flexibly during the course of the year. When the insurance claims exceeded the budget appropriation, the emergency fund of the national budget had to be used, which hindered proper actions in a timely fashion. In order to ensure the taking of swift and proper actions corresponding to the fast growing demand of the credit guarantee, the credit insurance business conducted by the Japanese Government was transferred to JCFCF in 1976.

After 1977, as a result of the establishment of 200 miles exclusive economic zones by many coastal countries, the majority of the fishing grounds exploited by the Japanese distant water fishing fleets fell within the 200 miles zone of coastal countries. Fishing opportunities were thus severely restricted.

The Japanese fishing fleets were forced to continue operating under very difficult circumstances including the loss of access to traditional fishing grounds, substantial reductions in allowable catches and high levels of access and fishing fees. As a consequence, many operators could not maintain their fleet size, and the number of fishing vessels especially those operated in the north Pacific, was reduced substantially. At the same time, the once-rising fish prices began to level off.

Thus all of the three once-favorable conditions (cheap fuel, easy access to resources in distant waters and rising fish prices) were lost by the two oil crises and the beginning of the new legal regime of the oceans. The heavy investments in fishing vessels and equipment, which had been made on the assumed continuation of these favorable conditions, became a burden to the fishermen. This poor financial situation of the fishermen lasted until mid-1980s.

The Government introduced a series of subsidized Emergency Loans for the fishermen, whose operations were greatly affected by such drastic changes in fishing conditions, to help them maintain their fishing operations and to ameliorate their financial situation. These loans included the Special Measure Loan for Fishery Fuel and the Fisheries Enterprise Management Maintenance and Stabilization Loan".

A majority of the Emergency Loans were accommodated using the credit guarantee system. In the case of the Fisheries Enterprise Management Maintenance and Stabilization Loan, a system designed to convert past loans, more than 80% of the total loan in the late 1970s was accommodated with the credit guarantees. For the "Special Measure Loan for Fishery Fuel" more than 60% of the loan was with the credit guarantees.

The Emergency Loans assisted in rehabilitating the poor financial situation of fishermen by accommodating low interest rate loans. Nevertheless, because of the continued severe fishery circumstances, the financial situation of many fishermen further deteriorated, even after borrowing the Emergency Loans. In the end, the accommodation of Emergency Loans resulted in a huge amount of insurance claims. The balance of the credit insurance account turned to substantial deficit. This deficit had to be compensated by contributions from the Government every year. Since 1982, various measures have been taken to remedy the balance of the credit insurance account including a raise in the insurance premium.

### **Establishment of the Japan Agriculture, Forestry and Fisheries Credit Fund**

During the mid-1980s, the Japanese Government launched the policy of restructuring government-affiliated organizations. As a part of the restructuring, JCFCF was merged with the similar organizations for agriculture and forestry, and the Japan Agriculture, Forestry and Fisheries Credit Fund (JAFIC) was established in 1987.

## **OUTLINE OF THE SYSTEMS**

### **Mechanism of the Systems**

The Small and Medium-Scale Fisheries Credit Guarantee and Insurance Systems have three sub-systems. The Credit Guarantee System provides fishermen with FCGFAs' credit supplementation. The Credit Insurance System provides FCGFAs with credit insurance through JAFIC. The Loan Insurance System provides the Norinchukin Bank with direct loan insurance by JAFIC for its loans to fishermen. The operation of the first two sub-systems is shown in Figure 2. The roles of the major components of these systems are as follows:

#### **a) *Role of the government***

Local governments contribute fund to FCGFAs to maintain FCGFAs' capability in credit guarantee. The national government supports active operations of the systems by subsidizing contributions by the prefectural governments to FCGFAs. These contributions by governments reduces the

fishermen's obligation to make financial contributions to FCGFAs for obtaining credit guarantees.

The national government contributes a majority of JAFIC's fund. The national government also supervises JAFIC and FCGFAs.

**b) *Role of FCGFAs***

A total of 44 FCGFAs are established throughout Japan. Of these, 42 are the local FCGFAs for each prefecture and 2 are nation-wide FCGFAs for specific fishing industries. These FCGFAs provide financial institutions with credit guarantees for their loans to fishermen. The credit supplementation provided by FCGFAs facilitates the accommodation of loans to fishermen.

**c) *Role of JAFIC***

JAFIC insures the liabilities of credit guarantees BY FCGFAs. JAFIC's insurance reduces the risk of guarantee liabilities of FCGFAs and enhances their capacities to provide guarantees. In addition, JAFIC extends low interest rate loans to FCGFAs to facilitate their credit guarantee business.

**Operation of the Credit Guarantee Business**

**a) *Small and medium-scale fishermen***

FCGFAs adopt a membership system. A fisherman becomes a member of a FCGFA by contributing funds of more than a unit of 50 thousand yen to FCGFA.

To participate in the schemes small and medium-scale fishermen must have their residence or office within the covering area of the FCGFA. The following types of fisherman are allowed to become a member:

- i) An individual who runs or engages in fishery business. The minimum number of days for operation or engagement is 90 days per year.
- ii) A legal person (except fisheries cooperative associations) which runs a fishery business with less than 300 permanent employees and less than a total of 3,000 gross tonnage of fishing vessels.
- iii) An individual who runs a fish processing business.
- vi) A legal person (except fisheries cooperative associations) which runs a fish processing business with less than 300 permanent employees or with its capital/investment of less than 100 million yen.
- v) Fisheries cooperative associations (FCAs) (except Credit Federation of FCAs and Credit Processing Federation of FCAs).
- vi) Non-profit foundation for fisheries promotion.
- vii) Joint-operated company.
- viii) Voluntary group.

Members can obtain FCGFA's credit guarantees according to the amount they contribute, i.e. a large amount of contribution is required when they need a high value of credit guarantee. For the sake of small-scale coastal fishermen, a relief measure permits them to enjoy FCGFA's credit guarantees without being a member. Financial contributions from the FCA to which the fisherman belongs are regarded as the base for calculating the value of the credit guarantee allocated to him.

**b) *Financial institutions***

Of the following list of financial institutions, those which have concluded a contract of credit guarantee with FCGFA are allowed to accommodate loans with credit guarantees.

- i) The Norinchukin Bank
- ii) Fisheries cooperative association (FCA) (limited to those which are designated by FCGFA)
- iii) Fish processors cooperative association (FPCA) (limited to those which are designated by FCGFA)

- vi) Prefectural Credit Federation of FCAs
- v) Prefectural Credit Federation of FPCAs
- vi) Bank
- vii) Credit association

c) *Loans*

FCGFA guarantees the following loans:

- 1) Fisheries Modernization Loan
- 2) General loans
  - Loans for business operations
  - Agriculture, Forestry and Fisheries Finance Corporation Loan
  - Fisheries Enterprise Management Improvement and Promotion Loan
  - Environmental Pollution Prevention Loan and Natural Disaster Relief Loan
  - Emergency Loans
    - i) General Emergency Loan
    - ii) Emergency Loan for Conversion
  - Loans for living

Note: See the notes of Table 3 for an explanation of each loan.

d) *Guarantee fee*

In compensation for providing a financial institution with credit a guarantee, guarantee fee is charged to the member fisherman who deputed FCGFA to guarantee his loan. The fee collected is appropriated to the operational cost of the system. The guarantee fee rates are determined by the Business Procedures of each FCGFA. For example, the overall average rate of guarantee fee for the Fisheries Modernization Loan is 0.52% of the loaned money, i.e. a fisherman has to pay 520,000 yen of guarantee fee to FCGFA in a year when he borrows 100 million yen.

e) *Procedures of the guarantee business*

1) *Application for credit guarantee*

To obtain a credit guarantee, a fisherman has to submit an application to FCGFA through an office of a local financial institution.

2) *Consultation for credit guarantee*

The financial institution which received the above application sends a letter of consultation attached to the application to FCGFA. The opinion of the financial institution based on its loan investigation is described in the letter of consultation.

3) *Approval of credit guarantee*

Once FCGFA is consulted by the financial institution, FCGFA researches and investigates the application. When FCGFA decides to approve, FCGFA notifies the financial institution and the fisherman of its approval and issues relevant documents for extending credit guarantee. The financial institution then extends loans to the fisherman. The fisherman pays the guarantee fee to FCGFA. When the term of his loan is more than a year, the guarantee fee is charged annually according to the outstanding of the loan. Annual acceptances and outstandings of the credit guarantee are shown in Tables 1 and 2.

4) *Subrogation*

The fisherman returns his debt according to the contract with the financial institution. Should the

fisherman be unable to return his debt because of a compelling reason such as ill or accident, FCGFA subrogates the remaining debt to the financial institution upon receipt of the claim from the financial institution. Subrogation is not made before the end of 6 months after the cessation of the loan payment by the fisherman. Annual subrogated payments by FCGFAs are shown in Table 3.

#### 5) *Recovery*

Once subrogated, FCGFA becomes a creditor of the subrogated fisherman. FCGFA recovers its subrogated payment from the fisherman and his sureties liable jointly and severally. Annual recoveries of subrogated payments are shown in Table 4.

#### 6) *Fund of FCGFAs*

FCGFAs manage their funds in order to use them as source money for subrogation of guaranteed liabilities. These funds include received contributions and grants and a transfer from the annual proceeds.

#### 7) *Upper limit of guaranteed value*

The maximum value of the total credit guarantee of a FCGFA is limited to the value equal to 15 times (overall average) of its fund. This limitation is designed to prevent a FCGFA from providing guarantees exceeding its actual capacity of subrogation and to avoid deterioration of FCGFA's ability to provide credit guarantees.

The upper limit of the guaranteed value for a member is calculated by multiplying a specific rate to his amount of finance contributions to FCGFA. The rates are determined by the Business Procedures of each FCGFA. The overall average rate for the Fisheries Modernization Loan and the Emergency Loan is 40 times and that for other loans is 21 times.

Another limit is also set to maintain FCGFAs' capacity to provide guarantees. The maximum value of the guarantee for any member as calculated above must be smaller than one-fifth of the FCGFA's total funds. With this limitation, the FCGFA's funds are protected from substantial reduction caused by a subrogation of large amount to one particular fisherman.

#### 8) *Relation with other fisheries insurance systems*

The Business Procedures of FCGFAs stipulate that "a collateral must carry a casualty insurance and the right of receiving this insurance money must be pawned to FCGFA." When a fisherman can not continue his operations due to an accident the fishing vessel or other natural disaster and the FCGFA's subrogation is made, FCGFA recovers its subrogated payment by receiving insurance money to the collateral on behalf of the fisherman.

### **Operation of the Credit Insurance business**

The credit guarantees extended by FCGFAs are insured by JAFIC.

#### a) *Insurance contract*

Each FCGFA concludes a comprehensive insurance contract with JAFIC. This contract determines the annual value to be insured.

#### b) *Insurance coverage*

Each credit guarantee of more than 3 million yen is insured automatically. Whether to insure or not credit guarantees of less than 3 million yen is a matter for the FCGFA's discretion. The share of the guaranteed values of less than 3 million yen to the total accepted guarantees was 2.4% in 1995. Insurance coverage of the credit guarantees of less than 3 million yen in 1995 was 49%.